

IN THE
SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1977

77-
No. 1413

JANE ARONSON (Formerly Known as Jane Leopoldi),
Petitioner,

vs.

QUICK POINT PENCIL COMPANY, a Missouri Corporation,
Respondent.

**BRIEF IN OPPOSITION TO PETITION FOR A WRIT
OF CERTIORARI TO THE UNITED STATES COURT
OF APPEALS FOR THE EIGHTH CIRCUIT**

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The decision in this case simply held that Respondent Quick Point, a patent licensee, was not bound to pay royalties indefinitely into the future for the manufacture and sale of an item described in a patent application which was abandoned 17 years ago by the licensor (Petitioner Aronson), and which unpatented item is being freely manufactured and sold by Quick Point's competitors. The case does not present any new issue to warrant the attention of our nation's highest court.

The petition for certiorari should be denied.

STATEMENT OF THE CASE

Petitioner Aronson's Statement of Facts is generally accurate and fairly complete, with a few exceptions. The following additions and modifications serve to emphasize the critical importance of the particular facts of this case to the decision reached by the Eighth Circuit.

1. The license agreement, which purported to give Quick Point the exclusive right to make and sell keyholders of the type shown in Aronson's patent application, also referred to the possibility of patent infringement and resulting litigation (App. A31). The license agreement contains no provisions concerning confidentiality or disclosure (App. A30).

2. On April 4, 1961, Aronson's agent and former husband, Leopoldi, filed a patent application, Serial No. 104496, concerning a similar keyholder device (App. A25). About six months later, in September, 1961, Aronson abandoned the patent application on the keyholder at issue (App. A27). After Leopoldi obtained a patent on his own keyholder in 1964, he attempted to license that patent to Quick Point (App. A44).

3. Petitioner has obtained royalties in the amount of \$203,963.84 from Quick Point under the keyholder license (App. A26).

4. In the late 1960's, certain keyholders substantially identical to that exclusively licensed by petitioner to Quick Point, began appearing on the market, and in the 1970's the competition in the keyholder market grew and continues to grow (App. A27). Quick Point's competitors sell these keyholders in competition with Quick Point (App. A28). While Quick Point's gross sales of the keyholders have generally increased since 1956, the market for the keyholders has expanded at a much greater rate, and Quick Point's percentage of the market has decreased since 1956 (App. A45-46). Quick Point's competitors

do not pay royalties on the identical keyholders manufactured by them (Finding of Fact No. 9, App. A22, A46). The royalty payments add to Quick Point's cost, making it more difficult for Quick Point to compete in the keyholder market (App. A46).

5. In its judgment of December 29, 1976, the District Court ordered Quick Point "to pay to [petitioner] the monthly royalty payments for the month of October, 1975 and continuing for each successive month thereafter with interest at the rate of 6 percent per annum" (App. A20). The Court did not establish any limitation upon Quick Point's continuing liability.

6. The Court of Appeals found that Quick Point "contracted for an exclusive license to manufacture and sell an item for which the licensor had submitted a patent application", and that "the parties entered into a contract anticipating that a patent would issue" (App. A8).

QUESTION PRESENTED

Under the facts involved, and applying established legal principles, may the licensor (Petitioner Aronson) force Quick Point as a licensee, to pay royalties indefinitely into the future on the license of a patent application, where the licensor has abandoned the patent application subsequent to the date of the license, where the subject matter of the license is not a trade secret, and where the licensee's competitors are freely manufacturing the unpatented item?

REASONS FOR NOT GRANTING THE WRIT

I. The Eighth Circuit's Decision Merely Follows the Previous Enunciations of the Supreme Court With Respect to the Enforceability of Contractual Royalties for the Use of Invalid or Expired Patents, and Applies Those Principles to the Facts of This Case. Since the Law Is Clear in This Area, the Facts of This Case Do Not Warrant Re-evaluation of Those Well-Established Principles.

In an apparent attempt to attract this Court's attention, it is not surprising that petitioner has greatly exaggerated and distorted the Eighth Circuit's ruling.¹ The Court of Appeals merely reaffirmed and applied a line of relatively recent Supreme Court cases in this field to the facts of this case.

First, and most important of these cases, is *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969). There, the plaintiff inventor filed a patent application for a gyroscope in 1954, and licensed the invention covered by his patent application to the defendant, Lear, Inc. one year later, in 1955. As in the present case, Lear, Inc. was to pay royalties on the invention. In 1957, after the patent application had been rejected twice, but while the application was still pending, Lear, Inc. announced that it would stop paying royalties. In 1960, the inventor obtained his patent, and sued Lear, Inc. for royalties. Lear defended on the grounds that the patent was invalid. The California courts enforced the royalty agreement, holding that under the applicable state law of contracts, a licensee is estopped, by his own contract, to contest the validity of the licensed patent.

This Court reversed the state court judgment, and remanded the case. Justice Harlan's opinion held:

¹ The ruling clearly does *not* invalidate licenses of trade secrets or pending patent applications. This is discussed under Point III, *infra*.

1. The state law of contracts, as applied to estop a licensee from contesting the validity of a patent, is in violation of federal patent policy (all 9 justices so held); and

2. If Lear could prove the patent's invalidity on remand, the inventor could not enforce the royalty payments on the invention for the period after the patent's issuance, in spite of the apparent contractual obligation to pay such royalties (7 justices so held).

In the second portion of its opinion in *Lear*, this Court gave approval to the already well established principle that patent licensees may avoid further royalty payments, regardless of their contract, once a patent is shown to be invalid. For this proposition, the Court cited *Drackett Chemical Co. v. Chamberlain Co.*, 63 F.2d 853 (6th Cir. 1933), 395 U.S. at 667. In the present case, the Eighth Circuit Court of Appeals correctly held that the principles enunciated in the second portion of the *Lear* opinion apply directly to the facts of this case, where the licensor abandoned the patent application, and Quick Point's competitors are freely manufacturing the licensed item. Clearly, there is no valid distinction for purposes of application of the *Lear* doctrine between the invalid patent in *Lear* and the abandoned patent here.

The Eighth Circuit further relied upon the principle, enunciated in both *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964), and *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964), that under federal law, all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent. This principle was reaffirmed in *Lear*, 395 U.S. at 656. Because petitioner's keyholder is in general circulation and petitioner abandoned the patent application on the keyholder, the Court of Appeals, applying the established law, naturally concluded that the keyholder license is not entitled to federal or state protection.

A fourth Supreme Court decision which provided guidance to the Eighth Circuit in this area is *Brulotte v. Thys Co.*, 379 U.S. 29 (1964). There this Court held that a licensee cannot be forced to pay royalties beyond the expiration date of a patent, and a royalty agreement to the contrary is invalid *per se*.

Finally, the Eighth Circuit cited *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974), where it was held that state trade secret laws may be used to enjoin the misappropriation of a *true* trade secret, even though the invention is not actually patented. Significantly, as discussed in greater detail under Point III, *infra*, the Court of Appeals here found that petitioner's invention is not a true trade secret. Obviously, the controlling facts of the present case were considered as very important to the Eighth Circuit's ultimate decision based upon existing Supreme Court cases.

Indeed, in her Petition for Rehearing En Banc in the Court of Appeals, petitioner recognized that the Eighth Circuit's decision is based upon application of the above mentioned Supreme Court decisions in the patent field. Petitioner stated:

"The decision, therefore, is based on an extension of the now well established principle that federal law requires all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent. It also is an extension of the principle established in *Sears, supra*, and *Compco, supra*, that no state by its law of unfair competition can prevent the copying of an article which is not protected by a valid patent. The Court further states that it finds support for its extension of these principles to a state's contract law as well as to the state unfair competition law in *Lear, supra*." (Petition for Rehearing En Banc, p. 4).

Petitioner further indicated that the Court of Appeals' decision rested largely upon the particular facts of this case:

"In any event, whether the Court is right or wrong in extending these principles to a state's contract law, whether a patent application is involved or not, the Court *erroneously interpreted the facts in this case and misapprehended the applicability of these principles to the keyholder* which is the subject matter of the contract in issue." (*Id.*, p.4) (emphasis added).

Since, by petitioner's own admission, the judgment below rested to such a large degree upon purely factual determinations, there can be no widespread interest in the matter at issue, nor a need for amplification by this Court. The well established patent principles, as recognized by petitioner, retain their validity. The Petition for a Writ of Certiorari should be denied!

II. The Eighth Circuit's Decision Is Not in Conflict With the Decisions of Any Other Circuit.

In an attempt to conjure up a nonexistent "conflict in the circuits," petitioner has cited *Warner-Lambert Pharmaceutical Co., Inc. v. John J. Reynolds, Inc.*, 178 F.Supp. 655 (S.D. N.Y. 1959), *aff'd without opinion* at 280 F.2d 197 (2d Cir. 1960).² But petitioner has chosen to gloss over the major factual distinctions between these two cases.

First, there was *no patent or patent application* at issue in *Warner-Lambert*, whereas the present controversy concerns the purportedly exclusive license of a patent application. Petitioner conveniently tries to ignore this fact, but the inconsistency in her position was noted in the Court of Appeals' opinion: "[Petitioner] applied for a patent, contracted with regard to that patent

² The 1959 Southern District of New York decision in *Warner-Lambert* antedates the four above mentioned Supreme Court decisions of *Lear* (1969), *Sears* (1964), *Compco* (1964) and *Brulotte* (1964), which were relied upon by the Eighth Circuit in this case.

application, and cannot now argue that patent law principles are irrelevant to this case" (App. A7-8, footnotes omitted).

Second, the licensed article in *Warner-Lambert* was the secret formula for "Listerine", an antiseptic liquid medicine. Apparently, the formula could not readily be copied upon sale of the product because the formula remained secret from the date of the license is 1881 until either 1905 or 1931. 178 F.Supp. at 667. Petitioner's keyholder, on the other hand, could be copied immediately once it was marketed in 1956, and is presently being manufactured by Quick Point's competitors. The keyholder is not a trade secret, as such, within the meaning of RESTATEMENT OF TORTS § 757, comment b, *infra*.

Further demonstration of the lack of conflict between the present case and *Warner-Lambert* may be gleaned from the New York District Court's recognition of the long standing principle that the licensee of an invalid patent is not obliged to pay contractual royalties, state contract law notwithstanding. 178 F.Supp. 664-665. In support of this proposition, the District Court cited *Drackett Chemical Co. v. Chamberlin Co.*, *supra*, relied upon by this Court in *Lear v. Adkins*. Since patent considerations are clearly involved in the present case, the license agreement at issue falls within the scope of *Drackett*, as noted with approval in *Warner-Lambert*. Thus, the Eighth Circuit's decision, which applied this same principle, is entirely consistent with *Warner-Lambert*.

Arguing for an alleged "conflict in the circuits", petitioner also relies upon the State case of *Sinclair v. Aquarius Electronics, Inc.*, 42 Cal. App. 3d 216, 116 Cal. Rptr. 654, 184 U.S.P.Q. 682 (1974). There, as in *Warner-Lambert*, the inventor had never sought federal patent protection for the licensed article. In *Sinclair*, the invention was a device which converted brain waves into audible form. After inducing the inventor not to apply for a patent on the device, the licensee

attempted to pirate the invention by filing a design patent application for a very similar device incorporating the inventor's idea. Of course, the California State Court held that in the peculiar circumstances of the case, the licensee would be estopped from asserting the unenforceability of the royalty provisions of the license. Thus, *Sinclair* involved entirely different facts and issues from the present case.

In a further attempt to conjure up a non-existent "conflict in the circuits", petitioner has cited *Wrigley v. Compudyne Corp.*, 390 F. Supp. 478 (E.D. Pa. 1975) and *Heltra, Inc. v. Richen-Gemco, Inc.*, 395 F. Supp. 346 (D.S.C. 1975), *rev'd on other grounds*, 540 F.2d 1235 (4th Cir. 1976). Neither of these cases conflicts with the Eighth Circuit's decision in the pending case. In *Wrigley*, the plaintiff inventor sued to recover past royalties due under the license of a patent application. The application was rejected at first but, upon amendment, a patent was issued. However, the defendant terminated the license agreement before the patent was issued and refused to pay royalties under the license while the patent application was pending.

It is *not* true, as alleged by petitioner, that the District Court in *Wrigley* held that *Lear, Inc. v. Adkins, supra*, is inapplicable to a suit for royalties on a license agreement involving a rejected patent application. The Pennsylvania District Court merely noted that the enforceability of royalties during the *pendency* of a patent application was left unresolved by *Lear*. 390 F.Supp. at 479. The Pennsylvania District Court also dismissed a counterclaim to declare the patent invalid, because the license had been terminated three years before the patent was issued and the patent's validity was therefore irrelevant. Here, because petitioner has abandoned the keyholder application, the present case does not involve any issue concerning 1) the enforceability of royalties under a *pending* patent application, or 2) the validity of a patent. Quick Point does not

contest its past royalty payments before or after the abandonment of the patent application, and this was not a suit for a refund. *Wrigley* is clearly not applicable, nor inconsistent with the present case.

The *Heltra* case is even further afield. There, the plaintiff sold a patent application and a certain apparatus to the defendant purchaser in return for payments characterized in the contract as "royalties". After the sale, a patent was issued on the application. When the plaintiff-seller sued the purchaser for his failure to pay the "royalties", the purchaser argued that if the patent is invalid he is not obligated to pay "royalties", citing *Lear*. *Lear* was held to be inapplicable because "unlike the situation in *Lear*, this case does not involve a licensor-licensee relationship", 395 F.Supp. at 351. As for the "royalties" the South Carolina District Court stated:

While the word "royalties" is used, it is clear that these payments are no more than installment payments in consideration for plaintiff's conveyance of the apparatus, tools, drawings, parts and patent application. 395 F.Supp. at 352.

Thus *Heltra* is inapplicable to the present case, where Quick Point is a licensee and petitioner is a licensor. Upon review and analysis, the cases cited by petitioner clearly fail to reveal any "conflict of the circuits."

III. The Eighth Circuit's Decision, Holding That the Licensee of a Patent Application May Cease Paying Contractual Royalties After the Application Has Been Finally Abandoned, Does Not Affect the Enforceability of Trade Secret Licenses or Licenses of Pending Patent Applications.

In connection with her third point, petitioner has again mustered parade of alleged terribles to dramatize the purported impact of the Eighth Circuit's decision.

First, it is improperly alleged that the ruling will overturn every trade secret licensing agreement. This gross hyperbole totally ignores the facts of this case. The Eighth Circuit correctly pointed out that no trade secret was involved:

We doubt that the keyholder could ever have been characterized as a trade secret. Although it may have been an 'invention', it was a relatively simple device and once marketed, it was completely disclosed. See, RESTATEMENT OF TORTS § 757, comment b. ("Matters which are completely disclosed by the goods one markets cannot be his secret.") App. A4, n. 5

Moreover, petitioner omits to state that she did not rely on trade secret protection when the patent application was filed in 1955, some 23 years ago, whereby petitioner sought to obtain a 17 year federal monopoly on the invention. Although the patent application was ultimately abandoned by petitioner, she has already obtained 19 years of royalties in excess of \$200,000 from 1956 to 1975. By abandoning the patent application, petitioner sought to prolong the royalty payments indefinitely beyond the time when the patent, if issued, would have expired.

Second, petitioner incorrectly alleges that the Eighth Circuit's ruling renders unenforceable every license of a pending patent application. No such issue was even raised, much less decided, by the present lawsuit. During the period from 1956 to 1961, when petitioner's patent application was pending, Quick Point paid all royalties under the license: Quick Point has never contested such payments. There is absolutely nothing in the Eighth Circuit's opinion which remotely concerns the enforceability of royalties during the pendency of a patent application. This issue is purely imaginary.

Unlike the present case, *Kewanee Oil Co. v. Bicron Corp.*, *supra*, was an action in tort seeking injunctive relief and damages

for the misappropriation of trade secrets. No patent, patent application, license or royalty agreement was involved. This Court held that the District Court properly applied Ohio trade secret law by enjoining the defendants' disclosure or use of certain trade secrets "until such time as the trade secrets had been released to the public, had otherwise generally become available to the public, or had been obtained by [defendants] from sources having the legal right to convey the information." 416 U.S. at 473-474.

The present case involves neither a misappropriation nor a true trade secret. On the contrary, the contractual license of a patent application is involved, there is no non-disclosure agreement, and the subject invention is in the public domain, being freely copied, manufactured and sold by Quick Point's competitors (Finding of Fact No. 9, App. A22, A28). The Court of Appeals' decision in this case will have no effect upon the Missouri law of trade secrets and misappropriation, as set forth in *Carboline Co. v. Jarboe*, 454 S.W.2d 540 (Mo. 1970). There is nothing in the Court's ruling which would in any way prevent the states from enjoining the misappropriation of a bona fide trade secret.

CONCLUSION

The Supreme Court has already established definite guidelines in the area of patent law applicable here. The Eighth Circuit merely applied those well established principles to the facts of this case. Nor is there any conflict in the circuits. Further, the keyholder at issue is not a trade secret, this is not a misappropriation case, and no significant new policy consideration is involved. Therefore, it is respectfully submitted that the petition for a writ of certiorari should be denied.

Respectfully submitted,

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